

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

DEARBORN HOUSING COMMISSION

Financial Statements

September 30, 2006

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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DEARBORN HOUSING COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2006

The Dearborn Housing Commission (DHC) management's discussion and analysis is designed to assist the reader in understanding the financial information presented in the 2006 Annual Report. This section provides a perspective on the Dearborn Housing's financial performance and results for fiscal year ending September 30, 2006. The discussion identifies changes, financial issues of concern and any challenges for subsequent years.

The Management Discussion and Analysis (MD&A) focus is on this years financial activities and includes comparison with the prior year financial information.

**FINANCIAL HIGHLIGHTS**

Dearborn Housing Commission's total assets increased \$345,440 or 7% during 2006. Net Assets were \$5.51 million for 2006 and \$5.17 million for 2005.

Revenue for business type activities during 2006 increased \$796,561 or 21% during 2006. Revenue in 2006 was \$4.56 million compared to \$3.77 million in 2005.

The total expenses of all the commission's programs increased \$82,296 or 2% in 2006 and were \$4.22 million in 2006 and \$4.14 million in 2005.

HUD operating grants for 2006 are: Public Housing \$552,458, Section 8 Vouchers \$640,782, Section 8 New Construction \$1,547,715 and Capital Fund \$662,385. The total of all grants is \$3,403,340.

## USING THIS ANNUAL REPORT

This annual report consists of the following:  
MD&A – Management Discussion and Analysis

Combined Financial Statements – Statement of Net Assets  
Revenue and Expenses  
And Changes in Net Assets  
Statement of Cash Flows  
Notes to Financial Statements  
Other Required Supplementary Information - As Required.

## THE COMMISSION FINANCIAL STATEMENTS

The Commission financial statements are consolidated with all business activities shown in one column for the entire Commission.

The **Statement of Net Assets** is the balance sheet reporting all financial resources of the commission on an accrual basis. The statement of net assets provides the information on the DHC financial position for the period ending 9/30/2006. The assets and liabilities are reported in order of liquidity as current and non-current. Current assets or liabilities are due within the year and non-current is over one year. The net worth is the assets minus liabilities equal net assets formally known as equity. The assets are reported as Capital Assets net of Related Debt and Unrestricted Net Assets.

### Net Assets Categories:

**Invested in Capital Assets, Net of Related Debt:** This is all Capital Assets reduces by depreciation, outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of these assets.

**Unrestricted Net Assets:** This consists of Net Asset that do not meet the definition of either restricted or net assets invested in capital assets net of related debt.

Other classification to the net assets can be added if needed, for example restricted net assets or contributed capital.

The **Statements of Revenues and Expenses** is the income statement. This statement includes operating revenues such as rental, grants, other income and interest and operating expenses such as administrative, tenant services, utilities, and general expenses.

To Complete the Statements, a **Statement of Cash Flows** is included, which discloses net cash provided by, or used for operating activities, non-capital financing activities and capital from investing activities.

## **FUND FINANCIAL STATEMENTS**

The Dearborn Housing Commission is an enterprise fund and accounts for all operations using full accrual basis of accounting including depreciation. The Enterprise method of accounting is similar to accounting used by the private sector.

The funds maintained by the Commission are required by the Department of Housing and Urban Development.

## **THE DEARBORN HOUSING COMMISSIONS PROGRAMS:**

**Conventional Public Housing** - The Public Housing Program rents units to low-income households. The Conventional Public Housing Program is operating under an Annual Contribution Contract (ACC) with HUD providing Operating Subsidy. The client's rental is based on 30% of their household income. The Dearborn Housing public housing is designated for seniors only.

**Public Housing Capital Fund** - The Capital Grant program is the source of financing for management and physical improvements to the Public Housing Program. The DHC submits to HUD improvement plans and funding is made available based on financing available for that year.

**Housing Choice Voucher Program** – The Housing Choice Voucher Program allows low income clients to choose any housing that meets the programs guidelines within the Housing Commission jurisdiction. The Housing Commission administers the contract with independent landlords and clients. The Commission is under an ACC with HUD to provide subsidy to individuals renting from private landlords with yearly rectification for clients and inspection of each property. Individuals pay 30% of their adjusted gross income toward rental and HUD provides the remainder up the Fair Market Rent limits for the area. An administrative fee is paid to the Commission under the ACC.

**Section 8 New Construction Contract Administration** - The Section 8 New Construction Contract Administration is the Housing Commission acting as administrators for HUD of a privately owned Housing Project. The Housing Commission under contract with HUD oversees the inspection, subsidy, wait list and contract renewal. The Housing Commission acts for HUD with the private property owner submitting to the Housing Commissions all required reports. The Housing Commission is paid an administrative fee for their work under an ACC with HUD.

### **THE DEARBORN HOUSING COMMISSION – MISSION STATEMENT**

Our mission is to provide for the administration and maintenance of decent, safe, and sanitary housing programs and properties in a manner that promotes serviceability, efficiency and stability of the projects while working to improve the economic and social well-being of low and moderate-income households such programs are intended to serve.

Our financial objective is to keep all the programs viable within the HUD guidelines while fulfilling the mission of the DHC.

## BALANCE SHEET

The following table reflects the condensed Balance Sheet compared to the prior year. The Commission is engaged only in Business-Type Activities.

**Table 1**  
**Balance Sheet**

	<b>2006</b>	<b>2005</b>
Current and Other Assets	\$1,151,729	\$982,287
Capital Assets	4,363,026	4,187,028
<b>Total Assets</b>	<b>5,514,755</b>	<b>5,169,315</b>
Current and Other Liabilities	346,268	349,911
Long Term Liabilities	0	0
<b>Total Liabilities</b>	<b>346,268</b>	<b>349,911</b>
Net Assets		
Invested in Capital Assets, Net of Related Debt	4,363,026	4,187,028
Restricted		
Unrestricted	805,461	632,376
<b>Total Net Assets</b>	<b>5,168,487</b>	<b>4,819,404</b>
<b>Total Liabilities and Net Assets</b>	<b>\$5,514,755</b>	<b>\$5,169,315</b>

### Table 1 Comments:

Total Assets increased 4% or \$345,440 from \$5,169,315 in 2005 to \$5,514,755 in 2006. The increase can largely be attributed to Capital Assets, Leasehold Improvements financed with Capital Grant Funds and Cash.

Leasehold Improvement increased 11% with Capital Grant investments of \$662,385. Dwelling Equipment retired assets of \$6,927 and added equipment of \$7320 for a net increase of \$393. Depreciation charged to Fixed Assets for 2006 is \$495,668.

The 2006 cash balance is \$1,046,838 with a \$37,419 HUD receivable from the 2005 cash balance of \$895,631 and \$47,720 HUD receivable. This is a 16.9% increase from 2005.



The increase in cash assets is a result of insurance proceeds from a casualty loss at Townsend Towers and funds transferred from the City of Dearborn Furnishing Fund. The Furnishing Fund's original purpose was to furnish and carpet the apartments in the Public Housing Buildings. The Fund was closed because the Housing Commission now expenses the carpet directly from operations and provides furniture only in the lobbies of the buildings.

**Table 2**  
**Statement of Revenues and Expenses**

This schedule compares the revenue and expenses of 2006 and 2005.

	2006	2005
<b>Revenues</b>		
Tenant Revenue and Other	\$1,109,376	\$796,152
Operating Subsidies and Grants	2,740,955	2,585,301
Capital Grants	662,385	354,965
Investment Income	40,486	24,417
Other Revenue	8,793	4,599
Total Revenue	\$4,561,995	\$3,765,434
<b>Expenses</b>		
Administrative	\$365,027	\$399,060
Tenant Services	44,542	51,599
Utilities	502,952	414,804
Maintenance	687,375	683,989
General	62,785	61,884
Housing Assistance Payments	2,057,470	2,033,199
Other Operating Expenses	5,051	356
Depreciation	495,707	493,722
Total Expenses	\$4,220,909	\$4,138,613
Net Increases	<b>\$341,086</b>	<b>\$(373,179)</b>

Fiscal year 2006 resulted in operating revenue over expenses of \$341,086. Operating subsidy increased 6%, Capital Grant funding was \$307,420 more than 2005 and total revenue increased 21% from 2005. Total expenses had a modest 2% increase from 2005 including depreciation. Depreciation is a not a cash charge but a measurement of capital assets use for the year. This year's depreciation is \$495,707.

In 2006, employee salary and benefits expenses increased 5.6% from 2005. Utility expenses in 2006 are 28.7% higher for 2005 the dollar amount is \$112,148. The utility increase was due to gas and water rate changes. Ordinary maintenance contract costs and materials actually decreased 14.5 % excluding extra-ordinary maintenance.

The Capital Grant funds in the revenue section are for modernization and improvement to the buildings. The funds are dependent on amount of the grant and the activity during the fiscal year. The revenue is only recorded when the related expenditure is complete.

**TABLE 3**  
**CAPITAL ASSETS AT YEAR END**  
**(NET OF DEPRECIATION)**

	2006	2005
Land	\$218,000	\$218,000
Buildings	6,554,020	6,554,020
Equipment Dwelling	254,056	254,084
Equipment Administration	76,534	76,534
Leasehold Improvements	6,612,154	5,947,769
Accumulated Depreciation	(9,352,170)	(8,863,351)
Total	<b><u>\$4,363,026</u></b>	<b><u>\$4,187,028</u></b>

Capital fund revenue was \$662,385, resulting in an 11% increase for the 2006 leasehold improvements on the balance sheet. The Capital Projects that are now in progress are: Townsend Towers Kitchen Renovation, Lobby Air Conditioning Replacement, Elevator Controls Replacement and Elevator Cab Upgrades.

Dwelling equipment is refrigerators and stoves from our buildings and operating equipment having a single purchase price over \$2,500. The administrative equipment is computers, servers and software for the office and buildings.

### **DEBT OUTSTANDING**

The Dearborn Housing Commission has reclassified the HUD Guaranteed Debt and Contributed Capital after September 30, 1999. The reclassification is due to the conversion from the HUD basis of accounting to the Generally Accepted Accounting Principles known as (GAAP). In 2006, HUD made bond payments directly to the lender for \$98,413.

The Commission has no other debt.

### **HOUSING COMMISSION BUDGET**

The Dearborn Housing Commission in compliance with the Department of Housing and Urban Development submits an annual operating budget for approval. The Director of the Dearborn Housing Commission approved the 2006 budget in April of 2005 with no occasion for subsequent review.

### **ECONOMIC FACTORS**

The Dearborn Housing Commission continues to feel the effects of the political and economic environment at both the state and national level. The DHC has to meet the challenge of operating with more compliance requirements with less revenue and increases in utilities, insurance and human resources.

The Public Housing subsidy was cut 12% this year due to proration from HUD. This is a reduction in subsidy by HUD to meet the federal budget. The proration is determined by HUD based on the amount of all subsidy requests. Overall, our tenant rent revenue increased 7% and the subsidy was reduced by 12% leaving DHC with a 5% increase. The revenue change was the result of a 2.7% increase in Social Security and an increase in the rental months leased from the prior year. The Section 8 voucher administrative fee did not change from the previous year. The Village Park contract administrative fee increase was minimal at .7% from 2005.

Employee benefit and utilities expenses continue to impact the DHC. Pension and health care benefits remain a continuing issue with change made this year to health care choice and to reduce costs. All indication is that health benefit cost will continue to increase in the coming years. Utilities rates increased significantly resulting in higher cost for gas and water.

Insurance costs for the buildings have increased over a 100% over the past five years. The rate increase is a reflection on the age of the buildings, the area, insurance losses for each building and the economic trends of the insurance industry.

Even with all the economic implications, the DHC had a very successful in containing our operating costs over previous year. Additionally, the staff managed to increase occupied unit days for our units to 97.5% for the total year. Overall, 2006 was a good year for the Dearborn Housing Commission.

### **FINANCIAL CONTACT**

If you have any question about this report or need additional information, contact Arlene P. Edmonds, at (313)943-221. Specific requests may be sent to The Dearborn Housing Commission, 13615 Michigan Ave., Dearborn MI 48126.

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**Arlene P. Edmonds**  
**Accountant**  
**Dearborn Housing Commission**

***John C. DiPiero, P.C.***

Certified Public Accountant

P. O. Box 378  
Hemlock, Michigan 48626  
Tel / Fax (989) 642-2092

Board of Commissioners  
Dearborn Housing Commission  
13615 Michigan  
Dearborn, Michigan 48126

### **Independent Auditor's Report**

I have audited the financial statements of the Dearborn Housing Commission's Business Type Activities as of and for the year ended September 30, 2006. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dearborn Housing Commission as of September 30, 2006, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principals.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 23, 2007 on my consideration of the Dearborn Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

### **Required Supplemental Information**

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

#### **Combining Financial Statements**

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

May 23, 2007

DEARBORN HOUSING COMMISSION  
Statement of Net Assets  
September 30, 2006

ASSETS

C-3042

CURRENT ASSETS

Cash	\$ 1,046,838	
Accounts Receivable- Tenants (net of allowance of \$ 4,263)	12,840	
Accounts Receivable- HUD	41,220	
Accounts Receivable- Other	2,105	
Prepaid Expenses	10,982	
Inventory- (net of allowance of \$ 612)	<u>11,617</u>	
Total Current Assets		\$ 1,125,602

NON CURRENT ASSETS

Land	\$ 218,000	
Buildings	6,554,020	
Furniture, Equipment- Dwelling	254,488	
Furniture, Equipment- Administrative	76,534	
Leasehold Improvements	6,612,154	
Accumulated Depreciation	<u>(9,352,170)</u>	
Total Non Current Assets		<u>4,363,026</u>

TOTAL ASSETS \$ 5,488,628

DEARBORN HOUSING COMMISSION  
Statement of Net Assets  
September 30, 2006

LIABILITIES & NET ASSETS

C-3042

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$ 64,249
Accrued Wages & Payroll Taxes	19,902
Tenants Security Deposit	61,484
Accounts Payable- HUD	33,870
Accrued Liabilities- Other	136,814
Deferred Revenue	<u>3,822</u>

<u>Total Current Liabilities</u>	\$ 320,141
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NET ASSETS:

Invested in Capital Assets, net of Related Debt	\$ 4,363,026
Unrestricted Net Assets	<u>805,461</u>

<u>Total Net Assets</u>	<u>5,168,487</u>
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<u>TOTAL LIABILITIES &amp; NET ASSETS</u>	<u>\$ 5,488,628</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements



DEARBORN HOUSING COMMISSION  
Statement of Revenues, Expenses, and Changes in Net Assets  
For the year ended September 30, 2006

OPERATING REVENUE

Tenant Rental Revenue	\$ 799,281	
Tenant Revenue-Other	310,095	
HUD Grants	2,740,955	
Interest Income	40,486	
Other Income	<u>8,793</u>	
<u>Total Operating Revenue</u>		\$ 3,899,610

OPERATING EXPENSES

Administrative	\$ 365,027	
Tenant Services	44,542	
Utility Expenses	502,952	
Ordinary Maintenance	645,377	
General Expenses	<u>62,785</u>	
<u>Total Operating Expenses</u>		<u>1,620,683</u>
<u>Operating Income (Loss)</u>		\$ 2,278,927

NONOPERATING REVENUE (EXPENSES)

Housing Assistance Payments	\$ (2,057,470)	
Casualty Losses	(5,000)	
Extraordinary Maintenance	(41,998)	
Fraud Loss	(51)	
Depreciation Expenses	<u>(495,707)</u>	
<u>Total NonOperating Revenue (Expenses)</u>		<u>(2,600,226)</u>
<u>Income (Loss) before Contributions</u>		\$ (321,299)

CAPITAL CONTRIBUTIONS

		<u>662,385</u>
<u>Changes in Net Assets</u>		\$ 341,086
Total Net Assets- Beginning	\$ 4,819,404	
Correction of prior year equity transfer	<u>7,997</u>	<u>4,827,401</u>
 Total Net Assets- Ending		 \$ <u>5,168,487</u>

The Accompanying Notes are an Integral part of the Financial Statements

DEARBORN HOUSING COMMISSION  
Combined Statement of Cash Flows  
For the Year Ended September 30, 2006

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 1,106,172
Payments to Suppliers	(3,280,370)
Payments to Employees	(455,509)
HUD Grants	3,403,340
Other Receipts (Payments)	<u>49,279</u>
Net Cash Provided (Used) by Operating Activities	\$ 822,912

CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	<u>(671,705)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 151,207
Balance- Beginning of Year	<u>895,631</u>
Balance- End of Year	\$ <u>1,046,838</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 341,086
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	495,707
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	12,160
Prepaid Expenses	(4,268)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(32,859)
Accrued Liabilities	22,876
Account Payable- HUD	(10,339)
Deferred Revenue	(2,593)
Security Deposits	<u>1,142</u>
Net Cash Provided by Operating Activities	\$ <u>822,912</u>

The Accompanying Notes are an Integral part of the Financial Statements

DEARBORN HOUSING COMMISSION  
Notes to Financial Statements  
September 30, 2006

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

Dearborn Housing Commission, Dearborn, Michigan, (Commission) was created by ordinance of the city of Dearborn. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 3-1,2,3	Low rent program	333 units
MI 28E001-003	Section 8 Certificates	96 units
MI 280014-004	Section 8 Administrative	152 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## Notes to Financial Statements- continued

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board, (GASB) pronouncements.

### Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

### Assets, Liabilities, and Net Assets-

#### Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	27.5 years
Equipment	3-10 years

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

Petty Cash	\$ 400
Checking Accounts	<u>150,438</u>
	\$ 150,838
Investments reclassified as Cash Equivalents	<u>896,000</u>
Financial Statement Total	<u>\$ 1,046,838</u>

Investments:

Certificates of Deposit	\$ 896,000
Reclassified as cash equivalents	<u>(896,000)</u>
Financial Statement Total	<u>\$ 0</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C's	\$ 150,438	\$	\$	\$ 150,438	150,438
C/D's	896,000			896,000	896,000
Petty Cash	<u>400</u>			<u>400</u>	<u>400</u>
Total Cash	\$ <u>1,046,838</u>	\$	\$	\$ <u>1,046,838</u>	<u>\$1046,838</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95. The Commission's cash position has been protected beyond FDIC limits with government backed securities or bank guarantees.

Note 3: Note 4: Prepaid Expenses

Prepaid expenses consists of the following:

Prepaid Insurance	\$ 10,982
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Note 4: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>End</u>
	<u>of Year</u>			<u>of Year</u>
Land	\$ 218,000	\$	\$	\$ 218,000
Buildings	6,554,020			6,554,020
Furniture & Equipment-Dwellings	254,056	432		254,488
Furniture & Equipment-Administrative	76,534			76,534
Leasehold Improvements	<u>5,947,769</u>	<u>671,273</u>	<u>6,888</u>	<u>6,612,154</u>
	\$13,050,379	\$ 671,705	\$ 6,888	\$13,715,196
Less Accumulated Depreciation	<u>8,863,351</u>	<u>495,707</u>	<u>6,888</u>	<u>9,352,170</u>
	\$ <u>4,187,028</u>	\$ <u>175,998</u>	\$	\$ <u>4,363,026</u>

Notes to Financial Statements- continued

Note 5: Pension Disclosures

The Commission employees are city employees, (see General Comment). The employees pension plan statistical information is included in the City of Dearborn annual report; Housing Commission employee statistical data is unavailable.

The pensions offered consist of the following:

Effective July 1, 2002, or when implemented

**A) FEATURES OF DEFINED CONTRIBUTION PLAN**

- 1) Employee must contribute 2% of pay, and City must contribute 4% of pay.
- 2) For each additional 1% of pay (up to a total of 5%) City will contribute 1.33 % of pay.
- 3) Employee contributes above 5 % of pay will not be matched by City. Maximum City contribution is 8 % of pay.
- 4) Vesting after 5 years. Includes employee service prior to conversion date.

**B) PARTICIPATION**

- 1) All unit employees hired on and after July 1, 2002 must only participate in the City's Defined Contribution Plan ("DC Plan"), regardless of any future promotion to a non-unit position.
- 2) All unit employees hired on and before July 1, 2002, have, initially, three (3) options:
  - a) Stay in chapter 22 (the "DB Plan")
  - b) Freeze BD Plan benefit and go forward only in DC Plan
  - c) Withdraw balance from BD Plan, put it in DC Plan, and go forward only in DC Plan
- 3) All unit employees hired on and before July 1, 2002, have a second opportunity to join DC Plan when they are capped at 30 years under DB Plan.

**C: OTHER**

- 1) Conversion periods:
  - a) To be determined
  - b) After 30 year cap, six (6) months after cap becomes effective
- 2) Other terms and conditions as provided in plan description and documents, as and when finalized.

Notes to Financial Statements, continued

Note 6: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 26,694,880
General Liability	1,000,000
Dishonesty Bond	50,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 8: Combining Financial Data Schedules.

The totals in the Combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).



DEARBORN HOUSING COMMISSION  
Schedule of Annual Federal Awards  
For the Year Ended September 30, 2006

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
<u>CFDA 14.850 Public and Indian Housing</u>	
* C-3042 Operating Subsidies	\$ <u>552,458</u>
* <u>CFDA 14.871 Housing Assistance Programs</u>	
C-3042E Village Park, Sec 8 Administrative	\$ 1,547,715
Section 8 Housing Choice Vouchers	<u>640,782</u>
	\$ <u>2,188,497</u>
* <u>CFDA 14.872 Capital Projects Funds</u>	
C-3042 Capital Funds Grant	\$ <u>662,385</u>
	\$ <u>3,403,340</u>

\*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 26,694,880
General Liability	1,000,000
Dishonesty Bond	50,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

## Dearborn Housing Commission

30-Sep-06

MI003

Combining Balance Sheet		Low Rent 14.850	Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	N/C Section 8 Program	TOTAL
Line Item #						
	<b>ASSETS:</b>					
	<b>CURRENT ASSETS:</b>					
	Cash:					
111	Cash - unrestricted	900,199	49,468	-	97,171	1,046,838
112	Cash - restricted - modernization and development	-				-
113	Cash - other restricted					-
114	Cash - tenant security deposits					-
100	Total cash	900,199	49,468	-	97,171	1,046,838
	Accounts and notes receivables:					
121	Accounts receivable - PHA projects					-
122	Accounts receivable - HUD other projects	-		37,419		37,419
124	Accounts receivable - other government	3,801				3,801
125	Accounts receivable - miscellaneous	-				-
126	Accounts receivable- tenants - dwelling rents	3,552				3,552
126.1	Allowance for doubtful accounts - dwelling rents	(3,856)				(3,856)
126.2	Allowance for doubtful accounts - other	-				-
127	Notes and mortgages receivable- current					-
128	Fraud recovery		13,551			13,551
128.1	Allowance for doubtful accounts - fraud		(407)			(407)
129	Accrued interest receivable	2,105				2,105
120	Total receivables, net of allowances for doubtful accounts	5,602	13,144	37,419	-	56,165
	Current investments					-
131	Investments - unrestricted	-				-
132	Investments - restricted					-
142	Prepaid expenses and other assets	10,982	-			10,982
143	Inventories	12,229				12,229
143.1	Allowance for obsolete inventories	(612)				(612)
144	Interprogram - due from	26,127	-	-		26,127
146	Amounts to be provided					-
150	TOTAL CURRENT ASSETS	954,527	62,612	37,419	97,171	1,151,729
	<b>NONCURRENT ASSETS:</b>					
	Fixed assets:					
161	Land	218,000				218,000
162	Buildings	6,554,020				6,554,020
163	Furniture, equipment & machinery - dwellings	254,488				254,488
164	Furniture, equipment & machinery - administration	49,668	-	26,866		76,534
165	Leasehold improvements	5,593,201		1,018,953	-	6,612,154
166	Accumulated depreciation	(9,352,170)	-	-		(9,352,170)
160	Total fixed assets, net of accumulated depreciation	3,317,207	-	1,045,819	-	4,363,026
171	Notes and mortgages receivable - non-current					-
172	Notes and mortgages receivable-non-current-past due					-
174	Other assets					-
175	Undistributed debits					-
176	Investment in joint ventures					-
180	TOTAL NONCURRENT ASSETS	3,317,207	-	1,045,819	-	4,363,026
190	<b>TOTAL ASSETS</b>	4,271,734	62,612	1,083,238	97,171	5,514,755

	<b>LIABILITIES AND EQUITY</b>					
	<b>LIABILITIES:</b>					
	<b>CURRENT LIABILITIES</b>					
311	Bank overdraft					-
312	Accounts payable ≤ 90 days	48,091	4,866	11,292	-	64,249
313	Accounts payable > 90 days past due					-
321	Accrued wage/payroll taxes payable	19,902				19,902
322	Accrued compensated absences	-				-
324	Accrued contingency liability					-
325	Accrued interest payable					-
331	Accounts payable - HUD PHA programs		13,551		20,319	33,870
332	Accounts Payable - PHA Projects					
333	Accounts payable - other government	-	-	-		-
341	Tenant security deposits	61,484				61,484
342	Deferred revenues	3,822				3,822
343	Current portion of Long-Term debt - capital projects					-
344	Current portion of Long-Term debt - operating borrowings					-
345	Other current liabilities	-				-
346	Accrued liabilities - other	136,814	-			136,814
347	Inter-program - due to	-	-	26,127	-	26,127
310	<b>TOTAL CURRENT LIABILITIES</b>	<b>270,113</b>	<b>18,417</b>	<b>37,419</b>	<b>20,319</b>	<b>346,268</b>
	<b>NONCURRENT LIABILITIES</b>					
351	Long-term debt, net of current- capital projects					-
352	Long-term debt, net of current- operating borrowings					-
353	Noncurrent liabilities- other	-				-
350	<b>TOTAL NONCURRENT LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
300	<b>TOTAL LIABILITIES</b>	<b>270,113</b>	<b>18,417</b>	<b>37,419</b>	<b>20,319</b>	<b>346,268</b>
	<b>EQUITY:</b>					
501	Investment in general fixed assets					-
	Contributed Capital:					
502	Project notes (HUD)					-
503	Long-term debt - HUD guaranteed	-				-
504	Net HUD PHA contributions	-			-	-
505	Other HUD contributions					-
508.01	Net Assets invested in Capital Assets	3,317,207		1,045,819		4,363,026
508	Total contributed capital	3,317,207	-	1,045,819	-	4,363,026
	Reserved fund balance:					-
509	Reserved for operating activities					-
510	Reserved for capital activities					-
511	Total reserved fund balance	-	-	-	-	-
512	Undesignated fund balance/retained earnings	684,414	44,195	-	76,852	805,461
513	<b>TOTAL EQUITY</b>	<b>4,001,621</b>	<b>44,195</b>	<b>1,045,819</b>	<b>76,852</b>	<b>5,168,487</b>
600	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>4,271,734</b>	<b>62,612</b>	<b>1,083,238</b>	<b>97,171</b>	<b>5,514,755</b>

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## Dearborn Housing Commission

30-Sep-06

MI003

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.855	Capital Projects Funds 14.872	N/C Section 8 Program	TOTAL
Line Item #						
	<b>REVENUE:</b>	-	-	-		
703	Net tenant rental revenue	799,281				799,281
704	Tenant revenue - other	310,095				310,095
705	Total tenant revenue	1,109,376	-	-	-	1,109,376
706	HUD PHA grants	552,458	640,782	662,385	1,547,715	3,403,340
708	Other government grants					-
711	Investment income - unrestricted	34,813	1,674	-	3,999	40,486
712	Mortgage interest income					-
714	Fraud recovery		8,735			8,735
715	Other revenue	-	58	-		58
716	Gain or loss on the sale of fixed assets					-
720	Investment income - restricted					-
700	<b>TOTAL REVENUE</b>	1,696,647	651,249	662,385	1,551,714	4,561,995
	<b>EXPENSES:</b>					
	Administrative					
911	Administrative salaries	148,505	4,866			153,371
912	Auditing fees	4,875	750		1,875	7,500
913	Outside management fees				-	-
914	Compensated absences	-				-
915	Employee benefit contributions- administrative	75,883	-			75,883
916	Other operating- administrative	22,300	51,949	-	54,024	128,273
	Tenant services					
921	Tenant services - salaries	13,039				13,039
922	Relocation costs	-				-
923	Employee benefit contributions- tenant services	1,865				1,865
924	Tenant services - other	29,638				29,638
	Utilities					
931	Water	41,410				41,410
932	Electricity	150,118				150,118
933	Gas	257,644				257,644
934	Fuel					-
935	Labor					-
937	Employee benefit contributions- utilities					-
938	Other utilities expense	53,780				53,780
	Ordinary maintenance & operation					
941	Ordinary maintenance and operations - labor	289,099				289,099
942	Ordinary maintenance and operations - materials & other	31,537		-		31,537
943	Ordinary maintenance and operations - contract costs	149,286		-		149,286
945	Employee benefit contributions- ordinary maintenance	175,455				175,455
	Protective services					
951	Protective services - labor					-



DEARBORN HOUSING COMMISSION  
Status of Prior Audit Findings  
September 30, 2006

The prior audit of the Dearborn Housing Commission for the period ended September 30, 2005, did not contain any audit findings.

DEARBORN HOUSING COMMISSION  
Report on Compliance Applicable with Requirements to  
Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133  
September 30, 2006

Compliance

I have audited the compliance of Dearborn Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended May 23, 2007. Dearborn Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Dearborn Housing Commission's management. My responsibility is to express an opinion on Dearborn Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Dearborn Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Dearborn Housing Commission's compliance with those requirements.

In my opinion, except for the following, Dearborn Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 23, 2007. However, the results of my auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs:

Low Rent Public Housing:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Lease Discrepancies	06-1	Eligibility

## Internal Control over Compliance

The management of Dearborn Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Dearborn Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

May 23, 2007



DEARBORN HOUSING COMMISSION  
Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards*  
September 30, 2006

I have audited the financial statements of Dearborn Housing Commission, Dearborn, Michigan, as of and for the year ended May 23, 2007, and have issued my report thereon dated May 23, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Dearborn Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs: finding 06-1.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Dearborn Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgement, could adversely affect Dearborn Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

May 23, 2007

DEARBORN HOUSING COMMISSION  
Schedule of Findings and Questioned Cost  
September 30, 2006

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
New Construction Section 8 Program	X	
Housing Choice Vouchers	X	
Capital Fund Project	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
Reportable condition(s) noted	_____ Yes	_____ X _____ No
Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
Reportable condition(s) noted	_____ X _____ Yes	_____ No
Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No

DEARBORN HOUSING COMMISSION  
Schedule of Findings, Recommendations and Replies  
September 30, 2006

The following finding of the Dearborn Housing Commission, for the year ended September 30, 2006, were discussed with the Executive Director, Mr. Floyd Addison, in an exit interview conducted May 23, 2007.

Finding 06-01 Low Rent Housing Program, Lease Discrepancy

A review of the files indicated the lease is month to month; HUD requires leases be annual.

Recommendation

The Commission needs to change future leases to renew annually, as required by HUD.

Reply

Lease corrected and submitted for approval to Auditor on May 18, 2007.

Lease agreement changed from...

The City of Dearborn (hereinafter referred to as Management) does hereby lease to Name of Resident (Hereafter referred to as Resident) the premises located at Address of building of Resident designated as Unit No. Apartment Number for the term beginning Date of Lease and ending midnight One year later at a rent of \$ Rental amount for said term. Unless terminated as provided herein, this Lease shall be automatically renewed for successive terms of one month each, subject to adjustments as herein provided.

Lease agreement changed to ...

The City of Dearborn (hereinafter referred to as Management) does hereby lease to Name of Resident (Hereafter referred to as Resident) the premises located at Address of building of Resident designated as Unit No. Apartment Number for the term beginning Initial Date of Lease and ending midnight One year later at a rent of \$ Rental amount for said term. Unless terminated as provided herein, this Lease shall be automatically renewed for successive terms of one year each, subject to adjustments as herein provided.